

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 L-03 COME-00 H-03 CIAE-00 INR-10

NSAE-00 RSC-01 OPIC-12 OMB-01 TAR-02 TRSE-00 SIL-01

LAB-06 STR-08 FTC-01 INT-08 SS-20 SP-03 NSC-07 DRC-01

SEC-03 /118 W

----- 105294

R 051700Z APR 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 3293

UNCLAS CARACAS 02996

E.O. 11652: N/A

TAGS: EIND EFIN VE

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: A. STATE 53993." B. CARACAS 5707 JULY 2, 1973:

C. CARACAS A-169 APRIL 1, 1973.

1. AS REQUESTED REFTEL A, THERE FOLLOWS POST'S CURRENT ASSESSMENT OF INVESTMENT CLIMATE IN VENEZUELA.

2. THE ECONOMIC CLIMATE FOR INVESTMENT IN VENEZUELA IS FAVORABLE AS A RESULT OF CURRENT EXPANSION. IN 1973 REAL GROWTH RATE WAS 8.7 PERCENT, CONSIDERABLY HIGHER THAN INCREASE IN POPULATION OF APPROXIMATELY 3.1 PERCENT. THIS EXPANSION HAS BEEN DUE PRIMARILY TO MODEST INCREASE IN VOLUME OF PRODUCTIONS OF EXTRACTIVE INDUSTRIES COUPLED WITH DRAMATIC INCREASES IN PRICES FOR PETROLEUM EXPROTS. A LESS IMPORTANT CONTRIBUTION TO ECONOMIC GROETH WAS MADE BY RESPECTABLE INCREASES IN OUTPUT BY MANUFACTURING, ELECTRICITY, CONSTRUCTION AND SERVICES. AGRICULTURE, WHICH EXPERIENCED ONLY MARGINAL GROWTH CONTINUES TO BE MAJOR WEAK SPOT IN ECONOMY. AFTER YEARS OF RELATIVE PRICE STABILITY, RATE OF INCREASE IN GENERAL PRICE INDEX FOR 1973 WAS APPROXIMATELY 10 PERCENT.

3. AS RESULT OF INCREASE IN PETROLEUM EARNINGS FROM ABROAD,

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VENEZUELA HAS EXPERIENCED A HEALTHY SURPLUS IN ITS BALANCE OF PAY-

MENTS,

A HIGH LEVEL OF FOREIGN EXCHANGE RESERVES, AND EXCESS GOVERNMENT REVENUE WHICH COULD REACH \$8 BILLION IN 1974 IF OIL PRICES REMAIN AT THEI CURRENT LEVEL. IN ORDER TO REDUCE INFLATIONARY IMPACT OF THIS EXCESS LEVEL. ,GOVERNMENT IS SEEKING WASYS TO INVEST IT EXTERNALLY INCLUDING ESTABLISHMENT OF A TRUST FUND WITHIN INTER-AMERICAN DEVELOPMENT BANK.

4. FOREIGN INVESTMENT IS GOVERNED BY DECISION 24 OF AGREEMENT OF CARTAGENA (ANDEAN PACT). HOWEVER IT IS CONTEMPLATED THAT ADDITIONAL LEGISLATION BY VENEZUELAN GOVERNMENT WILL BE NECESSARY TO DEAL WITH AREAS OF FLEXIBILITY IN DECISION 24 IN WHICH THE MEMBER GOVERNMENTS ARE GIVEN DISCRETION.

5. IN ORDER TO PROMOTE NON-TRADITIONAL EXPORTS CONGRESS HAS PASSED EXPORT INCENTIVES LAW, WHICH PROVIDES FOR FISCAL INCENTIVES IN FORM OF A NEGOTIABLE TAX VOUCHER BASED ON DOMESTIC VALUE ADDED. ANOTHER LAW PROVIDES FOR ESTABLISHMENT OF AN EXPORT FINANCING FUND TO PROVIDE CREDIT FACILITIES FOR EXPORTERS OF NON-TRADITIONAL GOODS AND SERVICES OF NATIONAL ORIGIN CONSIDERED IMPORTANT FOR VENEZUELA'S ECONOMIC DEVELOPMENT.

6. OPIC HAS INSURED A VERY SMALL PERCENTAGE OF TOTAL U.S.FOREIGN INVESTMENT HERE AND IS NOT CONSIDERED BY GOVERNMENT TO BE IMPORTANT TO ITS DEVELOPMENT PROGRAM. OPIC HAS BEEN OPERATING HERE WITHOUT ANY AGREEMENT FOR SETTLEMENT OF DISPUTES INCLUDING INTERNATIONAL ARBITRATION AND SUBROGATION OF RIGHTS, WHICH IS PROHIBITED BY ARTICLE 51 OF DECISION 24 OF THE AGREEMENT OF CARTAGENA. OPIC HAS SUSPENDED OPERATIONS HERE UNTIL ITS BOARD DECIDES WHETHER IT CAN CONTINUE TO OPERATE HERE WITHOUT FORMAL BILATERAL AGREEMENT.

7. IN ORDER TO TAP DOMESTIC SAVINGS FOR INTERNAL INVESTMENT, GOVERNMENT PASSED CAPITAL MARKETS LAW WHICH ESTABLISHED NATIONAL SECURITIES COMMISSION, AND SEC TYPE REGULATORY BODY, AND ENABLES GOVERNMENT TO GRANT TAX INCENTIVES TO OPEN CAPITAL COMPANIES WHICH ACHIEVE A WIDE DISTRIBUTION OF STOCK OWNERSHIP AND MEET CERTAIN OTHER CRITERIA.

8. THE VENEZUELAN MERCHANT MARINE PROTECTION AND DEVELOPMENT BILL
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WAS PASSED BY CONGRESS AND PROVIDES THAT 50 PERCENT OF GENERAL CARGO (AND EVENTUALLY BULK -INCLUDING PETROLEUM) EXPORTS AND IMPORTS MUST BE CARRIED IN VENEZUELAN SHIPS. 100 PERCENT OF GOVERNMENT CARGO

MUST ALSO BE CARRIED IN VENEZUELAN SHIPS.

9. IN AREA OF PETROLEUM, LAWS HAVE BEEN PASSED WHICH REQUIRE INTERNAL MARKETING OF PETROLEUM AND THE PRODUCTION OF NATURAL GAS

TO BE LIMITED TO STATE ENTERPRISES. AT PRESENT GOVERNMENT IS CONSIDERING ACCELERATED REVERSION TO STATE OF ENTIRE PETROLEUM INDUSTRY AND HAS INDICATED IT WOULD DEVELOP ORINOCO PETROLEUM BELT WITHOUT EXTERNAL INVESTMENT.

10. IN SUMMARY, WHILE HEALTHY ECONOMY PROVIDES MANY OPPORTUNITIES FOR PROFITABLE INVESTMENT, ABUNDANCE OF FOREIGN EXCHANGE AND GOVERNMENT REVENUE MAKES GOVERNMENT EXTREMELY INDEPENDENT OF NEED FOR FOREIGN CAPITAL AND THIS ATTITUDE IS LIKELY TO BE REFLECTED WITH INCREASING FREQUENCY INLAWS AND REGULATIONS OT THE COUNTRY.

11. STATISCTICS FOR VENEZUELAN INVESTMENT IN U.S. ARE NOT AVAILABLE FROM GOVERNMENT SOURCES, HOWEVER, IT IS EMBASSY'S IMPRESSION THAT SUCH INVESTMENT IS MINIMAL AT THIS TIME. SINCE SURVEY OF CURRENT BUSINESS CONTAINS STATISTICS ON INVESTMENT BY LATIN AMERICA, IT IS ASSUMED COMMERCE HAS ESTIMATED FOR INDIVIDUAL COUNTRIES COMPOSING TOTAL INCLUDING VENEZUELA.

12. DIRECT INVESTMENT IN VENEZUELA BY NEXT THREE LARGEST INVESTING COUNTRIES AFTER U.S. AT END OF 1971, ACCODRDING TO MOST RECENT STATISTICS OF CENTRAL BANK FOLLOW:

TOTAL FOREIGN INVESTMENTS
BY COUNTRY - 1972
(MILLIONS) - (US \$1 - 4.30)

	BS.	US \$	
TOTAL INVESTMENT		15,400	3,581
U.S.A.	9,811	2,282	
UNITED KINGDOM		1.192	277
HOLLAND	1,503		350
CANADA	638		148
OTHER COUNTRIES		2,256	525.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INVESTMENT OPPORTUNITY REPORTS, INVESTMENT DATA, FOREIGN INVESTMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 05 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974CARACA02996
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740078-0491
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740463/aaaacflz.tel
Line Count: 155
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: A. STATE 53993." B. CARACAS 5707 JUL, Y 2, 1973:
Review Action: RELEASED, APPROVED
Review Authority: WorrelSW
Review Comment: n/a
Review Content Flags:
Review Date: 13 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 MAY 2002 by bryansd0>; APPROVED <17 DEC 2002 by WorrelSW>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FOREIGN INVESTMENT CLIMATE AND STATISTICS
TAGS: EIND, EFIN, VE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005